

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-02 PA-03 PRS-01 USIA-12 FSE-00 ABF-01

RSR-01 /168 W

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R 291745 Z JUN 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2283

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

UNCLAS SECTION 01 OF 02 LONDON 07550

DEPARTMENT PASS TREASURY, COMMERCE AND FRB

E. O. 11652: N/ A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING JUNE 29

BEGIN SUMMARY: GOLD TRADED BETWEEN \$118.75 AND \$122.25

AN OUNCE THIS WEEK, CLOSING AT \$121.75 ON THURSDAY.

STERLING MOVED STEADILY UPWARD ALL WEEK, CLOSING ON

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THURSDAY AT \$2.5835-1/2. RETAIL PRICES ROSE AT AN ANNUAL RATE OF 8.4 PERCENT IN MAY. INTEREST RATES CONTINUE TO FALL AND THE OTHER MAJOR CLEARING BANKS HAVE NOW CUT THEIR MINIMUM LENDING RATES TO 8 PERCENT IN LINE WITH NATIONAL WESTMINSTER MOVE ON JUNE 14. SIR MICHAEL CLAPHAM, HEAD OF THE CBI, STRESSED IN A RECENT SPEECH THAT THE CBI WILL RESIST ANY U. K. ATTEMPT TO RETURN TO A SYSTEM OF FIXED CURRENCY PARITIES IN EUROPE PREMATURELY. TERMS HAVE FINALLY BEEN AGREED BETWEEN MIDLAND BANK AND MONTAGUE TRUST. WITH LORD O' BRIEN' S RETIREMENT ON JUNE 30, GORDON RICHARDSON WILL FORMALLY BECOME GOVERNOR OF THE BANK OF ENGLAND. END SUMMARY

1. GOLD ROSE \$4.20 TO \$123.00 ON TUESDAY, JUNE 26 IN REACTION TO THE MAY U. S. TRADE DEFICIT. IT THEN DROPPED BACK AND CLOSED AT \$121.75 ON THURSDAY. STERLING MOVED STEADILY UPWARD FROM \$2.5745 (JUNE 22) TO \$2.5835-1/2 (JUNE 28) A GAIN OF 103 POINTS ON LAST THURSDAY' S CLOSE.

2. THE RETAIL PRICE INDEX ROSE BY 0.7 PER CENT IN MAY TO 178.0 (1962 100). THIS PUT THE RATE AT 9.5 PER CENT HIGHER THAN MAY 1972. THE JUMP IN RETAIL PRICES DURING MAY REFLECTS THE SPATE OF PRICE RISES ALLOWED IN THE EARLY WEEKS OF PHASE II OF THE PRICES AND INCOMES POLICY, IN ADDITION TO A CONTINUINGLY SHARP INCREASE IN FOOD PRICES. THE PACE OF INFLATION DURING THE PERIOD SINCE THE " FREEZE" HAS BEEN SO RAPID THAT THE PREVIOUSLY RAPID GROWTH IN REAL INCOMES IS FAST COMING TO A HALT. PRICES HAVE RISEN BY 5.1 PER CENT SINCE NOVEMBER, WHEREAS WAGE RATES WENT UP BY 4.3 PERCENT DURING THE SAME PERIOD.

3. THE MINIMUM LENDING RATE WAS REDUCED TO 7-1/2 PERCENT LAST FRIDAY WHERE IT REMAINED THIS FRIDAY. IT WAS LAST REDUCED ON MAY 18. INTEREST RATES HAVE BEEN EDGING DOWNWARDS WITH THE BANK OF ENGLAND' S ENCOURAGEMENT SINCE APRIL. THE REST OF THE LONDON CLEARING BANKS FOLLOWED THE EXAMPLE SET BY NATIONAL UNCLASSIFIED

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WESTMINSTER ON JUNE 14, BY REDUCING THEIR BASE LENDING RATE FROM 8-1/2 TO 8 PERCENT ON JUNE 25. THE COST OF CREDIT TO TOP QUALITY " BLUE CHIP" BANK CUSTOMERS WILL NOW BE 9 PERCENT AND TO OTHER BORROWERS 12-1/2 OR 13 PERCENT FOR OVERDRAFTS.

4. SIR MICHAEL CLAPHAM, THE PRESIDENT OF THE CONFEDERA-

TION OF BRITISH INDUSTRY, IN ADDRESSING THE GERMAN
CHAMBER OF INDUSTRY AND COMMERCE IN THE U. K., SAID
THAT THE CBI WOULD RESIST ANY ATTEMPT TO RETURN TO A
SYSTEM OF FIXED CURRENCY PARITIES IN EUROPE PREMATURELY.
SIR MICHAEL WENT ON TO SAY THAT " AFTER MANY YEARS IN
WHICH EVERY SURGE OF GROWTH HAD TO BE DAMPENED DOWN TO
PREVENT PANIC WITHDRAWALS FROM WHAT WAS A RESERVE
CURRENCY, MOST PEOPLE IN U. K. INDUSTRY WERE DELIGHTED
WITH THE STABILITY OF A FLOATING CURRENCY".

5. TERMS HAVE FINALLY BEEN AGREED BETWEEN THE BOARDS
OF MIDLAND BANK AND MONTAGUE TRUST FOR THE FIRST
MERGER OF A CLEARING BANK AND AN ACCEPTING HOUSE.
THE MERGER HAS BEEN APPROVED BY THE BANK OF ENGLAND,
AND FOLLOWS THE BOE' S GENERAL RELAXATION EARLIER THIS

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RSR-01 /168 W

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R 291745 Z JUN 73

FM AMEMBASSY LONDON

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INFO AMEMBASSY BERN

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YEAR OF THE UNWRITTEN RULE PROHIBITING CLEARING BANK
 PARTICIPATION IN AN ACCEPTING HOUSE.

6. THE DISCOUNT ON STERLING WIDENED DURING MOST OF THE
 WEEK BUT NARROWED ON THURSDAY, JUNE 28, ALTHOUGH STILL
 REMAINING ABOVE LAST THURSDAY'S LEVELS.

*	6/21	6/28	CHANGE
1 MONTH	0.28	0.42-1/2	UP 0.14-1/2

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3 MONTHS	0.89	1.10-1/2	UP 0.21-1/2
6 MONTHS	1.90-1/2	2.15-1/2	UP 0.25

(ALL FIGURES IN CENTS)

7. LOCAL AUTHORITY DEPOSIT RATES GENERALLY DECLINED
 DURING THE WEEK.

*	6/21	6/28	CHANGE
1 MONTH	8	7-11/16	DOWN 5/16
3 MONTHS	8-11/16	8-1/4	DOWN 7/16
6 MONTHS	8-15/16	8-11/16	DOWN 1/4

8. EURODOLLAR RATES MOVED UP SHARPLY AT 1 MONTH AT THE

BEGINNING OF THE WEEK REMAINED RELATIVELY UNCHANGED AT
 3 MONTHS, AND MOVED UP A BIT AT 6 MONTHS.

*	6/21	6/28	CHANGE
1 MONTH	8-7/8	83/4	DOWN 1/8
3 MONTHS	8-7/8	9	UP 1/8
6 MONTHS	9	9-1/4	UP 1/4

9. GOLD CLOSED AT \$121.75 ON THURSDAY, UP \$1.00 ON
 LAST THURSDAY'S CLOSE.

10. THE MINIMUM LENDING RATE REMAINED FIXED ON JUNE 29
 AT 7-1/2 PERCENT.

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*** Current Handling Restrictions *** n/a

*** Current Classification *** UNCLASSIFIED

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Draft Date: 29 JUN 1973
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Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
Disposition Reason:
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Enclosure: n/a
Executive Order: n/a
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30 JUN 2005

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Review Withdrawn Fields: n/a
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Status: <DBA CORRECTED> jms 980306
Subject: ECONOMIC DEVELOPMENTS: WEEK ENDING JUNE 29
TAGS: ECON, UK
To: BERN
BONN
BRUSSELS
COPENHAGEN
DUBLIN
EC BRUSSELS
EUR

LUXEMBOURG
SECSTATE WASHDC

Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005